

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
On Its Own Motion,)	
)	
v.)	
)	
The Peoples Gas Light and Coke Company)	01-0707
)	
)	
Reconciliation of revenues)	
collected under fuel and gas)	
adjustment charges with actual)	
costs.)	

DIRECT TESTIMONY
OF
VALERIE H. GRACE

- 1 Q. Please state your name and business address.
- 2 A. Valerie H. Grace, 130 East Randolph Drive, Chicago, Illinois 60601.
- 3 Q. By whom are you employed?
- 4 A. The Peoples Gas Light and Coke Company ("Peoples Gas" or
- 5 "Respondent").
- 6 Q. What position do you hold with Peoples Gas?
- 7 A. I am Director of Rates and Gas Transportation Services.
- 8 Q. What are your responsibilities in that position?
- 9 A. I am responsible for directing the activities of the Rates and Gas
- 10 Transportation Services Departments and for making recommendations
- 11 regarding rate policies for Peoples Gas and North Shore Gas Company.
- 12 Q. Please summarize your educational background and experience.

13 A. In 1980, I graduated from Illinois State University with a Bachelor of
14 Science Degree in Business Administration. In 1988, I received a Masters of
15 Management Degree from Northwestern University. I have been employed by
16 Peoples Gas from September, 1980 to the present. I began my employment in
17 what is now the Gas Supply Planning Department. In September, 1992, I was
18 transferred to what is now the Rates Department. In February, 1993, I was
19 transferred to the Office of the Chairman. In April, 1994, I was transferred to the
20 Executive Office of what is now the Customer Relationship Division. In April,
21 1995, I returned to the Gas Supply Planning Department. In September, 1995, I
22 was transferred into the Rates Department as Supervisor. In November, 1996, I
23 was promoted to Manager of the Rates Department, and in June, 1997, I was
24 promoted to my present position.

25 Q. Please give a brief description of the operations and status of Respondent.

26 A. I am advised by counsel that Respondent is a corporation organized and
27 existing under the laws of the State of Illinois, having its principal office at 130
28 East Randolph Drive, Chicago, Illinois 60601. It is engaged in the business of
29 purchasing, storing, distributing, selling and transporting natural gas to
30 approximately 840,000 customers in the City of Chicago. I am advised by
31 counsel that Respondent is a public utility within the meaning of the Public
32 Utilities Act.

33 Q. Please describe the subject matter of this proceeding.

34 A. Pursuant to Section 9-220 of the Public Utilities Act, on November 7, 2001,
35 the Illinois Commerce Commission ("Commission") entered a citation order

36 ("order") directed to fourteen Illinois gas and electric utilities, including
37 Respondent. The order requires Respondent to present evidence to the
38 Commission at a public hearing in Docket No. 01-0707 reconciling revenue
39 collected under the purchased gas adjustment clause (Rider 2, Gas Charge, of
40 Respondent's Schedule of Rates) with the actual costs prudently incurred and
41 recoverable under Rider 2, for the twelve months ended September 30, 2001,
42 Respondent's fiscal 2001. The order also requires Respondent's filing to reflect
43 fourteen specified data for each of its Gas Charges. The order further requires
44 that notice of the filing of this evidence be made in accordance with the
45 requirements of 83 Illinois Administrative Code Part 255. In this proceeding,
46 Respondent is making an evidentiary showing in order to satisfy the
47 requirements of the Commission's order.

48 Q. Please describe the notice given by Respondent of the filing in this case.

49 A. At the time the filing in the above-captioned proceeding was made,
50 Respondent placed copies of the filed evidence, available for public inspection, in
51 each of its offices. Public notice of the filing was also posted in each of these
52 offices. Further, Respondent published notice of the filing in the Chicago
53 Tribune, a secular newspaper of general circulation in Respondent's service
54 territory, in accordance with the requirements of 83 Illinois Administrative Code
55 Part 255.

56 Q. Please describe Respondent's Exhibit 1.

57 A. Respondent's Exhibit 1 includes a copy of the audit report of Respondent's
58 independent public accountants, Arthur Andersen, LLP and the verification by

59 Respondent's Senior Vice President, Desiree Rogers. The audit report includes
60 a copy of Respondent's Statement to Illinois Commerce Commission,
61 Determination of Reconciliation Balance for Gas Charge for Fiscal Year 2001
62 ("Statement"), as described in Rider 2, Section G, of Respondent's Schedule of
63 Rates.

64 Q. Was the Statement prepared under your supervision and direction?

65 A. Yes, it was.

66 Q. Are the verification and the audit report true and correct copies of Ms.
67 Rogers' verification and the audit report of the independent public accounts?

68 A. Yes, they are.

69 Q. What are the types of Gas Charges that Respondent files pursuant to its
70 Rider 2 and what costs do the Gas Charges recover?

71 A. Each month, Respondent files a Commodity Gas Charge ("CGC"), a Non-
72 Commodity Gas Charge ("NCGC"), a Demand Gas Charge ("DGC") and a
73 Transition Surcharge ("TS"). The sum of the CGC, NCGC and TS is the Gas
74 Charge, which is applied to all Company-supplied therms except standby therms
75 supplied to transportation customers. Standby therms are priced at the standby
76 commodity charge, which is the sum of the CGC, 50% of the NCGC and the TS.
77 The CGC recovers commodity-related costs. The NCGC recovers non-
78 commodity related costs. The DGC also recovers non-commodity related costs,
79 but from transportation customers. A factor of 50% is applied to the DGC, which
80 is applied to each therm of transportation customers' contracted for standby
81 service. Revenues arising from the application of the DGC are credited against

the non-commodity related costs used in computing the NCGC. As both the NCGC and DGC recover non-commodity related costs, revenues recovered under these charges are jointly reconciled with such costs. Finally, the TS, which is applied to each therm delivered by Respondent, recovers pipeline gas supply realignment transition costs.

Q. The Commission's order requires Respondent to include certain data for the prior reconciliation year in its determination of the current year's reconciliation. Please specify any unamortized Factor A balance at the end of fiscal 2000.

A. The unamortized Factor A balance at the end of fiscal 2000 for each respective Gas Charge is shown on Page 2, Line 1, of Respondent's Exhibit 1. Respondent's unamortized Factor A balance at the end of fiscal 2000 reflects a recoverable balance of \$31,416,105.68 for the CGC, a refundable balance of \$936,949.00 for the NCGC and DGC, and a refundable balance of \$12,375.53 for the TS, for a total recoverable balance of \$30,466,781.15. These amounts are also reflected on Page 2, Line 13, of Respondent's Statement to Illinois Commerce Commission, Determination of Reconciliation Balance for Gas Charge for Fiscal Year 2000 ("2000 Statement"). This document was submitted as Exhibit 1 in my direct testimony in Docket No. 00-0720, Reconciliation of Revenues Collected Under Fuel and Gas Adjustment Charges with Actual Costs for fiscal 2000.

Q. Please specify the total adjustments to gas costs (that is, Factor A) that were amortized to Schedule I in Respondent's fiscal 2000 monthly filings but

were not yet reconciled through Schedule II of Respondent's monthly filings at September 30, 2000.

A. Total unreconciled adjustments to gas costs (Factor A) reflect a recoverable amount of \$13,388,581.16 for the CGC, a refundable amount of \$221,497.41 for the NCGC and DGC and a refundable amount of \$13,502.24 for the TS, for a total recoverable Factor A of \$13,153,581.51. These adjustments, for the reported months of August and September, 2000, were not yet reconciled at the end of fiscal 2000. However, they are reflected in the CGC, NCGC and DGC, and TS Gas Charges for the effective months of October and November, 2000, which fall within fiscal 2001. These amounts are shown on Page 2, Line 2, of Respondent's Exhibit 1. They are also reflected on Page 2, Line 12, of Respondent's 2000 Statement.

Q. Please specify any Factor O amounts requested by Respondent for fiscal 2000 and collected or refunded during fiscal 2001.

A. There were no Factor O amounts requested by Respondent for fiscal 2000, nor were any Factor O amounts collected or refunded during fiscal 2001.

Q. What was Respondent's refundable or recoverable balance for fiscal 2000?

A. Respondent's refundable or recoverable balance for fiscal 2000, which is determined by summing the amounts on Page 2, Lines 1 through 3, of Respondent's Exhibit 1, reflects a recoverable balance of \$44,804,686.84 for the CGC, a refundable balance of \$1,158,446.41 for the NCGG and DGC, and a refundable balance of \$25,877.77 for the TS, for a total recoverable balance of

128 \$43,620,362.66. These amounts are shown on Page 2, Line 4, of Respondent's
129 Exhibit 1. These amounts are also reflected on Page 2, Line 11, of Respondent's
130 2000 Statement.

131 Q. What are Respondent's fiscal 2001 recoverable gas costs and revenues?

132 A. Recoverable gas costs are summarized and shown on Page 2, Line 5, of
133 Respondent's Exhibit 1. Recoverable gas costs amount to \$826,153,232.77 for
134 the CGC and \$57,348,585.98 for the NCGC and DGC, for a total of
135 \$883,501,818.75 to be recovered under the Gas Charge. There are no
136 recoverable gas costs for the TS due to the termination of pipeline transition
137 costs in November 1997, Respondent's fiscal 1998. Although there are no
138 recoverable gas costs for the TS in fiscal 2001, there are revenues arising
139 through the application of the TS, which are recovered under the Gas Charge.
140 These amounts, which are insignificant, arise from billing adjustments and flow
141 through Factor A of the TS. Revenues are summarized and shown on Page 2,
142 Line 6, of Respondent's Exhibit 1. Revenues arising through the application of
143 each Gas Charge amount to \$907,590,488.08 for the CGC, \$50,989,557.66 for
144 the NCGC and DGC and \$927.69 for the TS, for a total of \$958,580,973.43
145 recovered under the Gas Charge. Recoverable gas costs and revenues are
146 shown in more detail on Pages 3, 4 and 5 of Respondent's Exhibit 1 for the CGC,
147 NCGC and DGC, and TS, respectively.

148 Q. Please specify the pipeline refunds or surcharges that Respondent
149 separately reported in fiscal 2001 monthly Gas Charge filings.

150 A. Pipeline refunds and surcharges, which are summarized and shown on
151 Page 2, Line 7, of Respondent's Exhibit 1, include a refund of \$614,882.34 for
152 the NCGC and DGC.

153 Q. Please specify any other adjustments that were separately reported in
154 fiscal 2001.

155 A. There were no other adjustments that were separately reported in fiscal
156 2001.

157 Q. Please specify the interest, calculated pursuant to Section 525.50 of the
158 Commission's rules, for inclusion in Adjustments to Gas Costs (Factor A).

159 A. Interest, calculated pursuant to Section 525.50, for inclusion in
160 Adjustments to Gas Costs (Factor A), is shown on Page 2, Line 9, of
161 Respondent's Exhibit 1, and reflects a recoverable amount of \$903,534.14 for the
162 CGC, a refundable amount of \$101,519.94 for the NCGC and DGC and a
163 refundable amount of \$998.84 for the TS, for a total recoverable amount of
164 \$801,015.36.

165 Q. What was Respondent's over- or under-recovery for fiscal 2001?

166 A. Respondent's over- or under-recovery for fiscal 2001 is shown on Page 2,
167 Line 10, of Respondent's Exhibit 1. The over- or under-recovery for each Gas
168 Charge can be determined by deducting the amount on Line 6 (revenues arising
169 through the application of each Gas Charge) from the amount on Line 5 (costs
170 recoverable through each Gas Charge) and adding the amounts on Line 7
171 (separately reported pipeline refunds and surcharges), Line 8 (separately
172 reported other adjustments), and Line 9 (interest). Using this calculation,

173 Respondent's over- or under-recovery for fiscal 2001 reflects an over-recovery of
174 \$80,533,721.17 for the CGC, an under-recovery of \$5,642,626.04 for the NCGC
175 and DGC, and an over-recovery of \$1,926.53 for the TS, for a total over-recovery
176 of \$74,893,021.66.

177 Q. Please specify the recovery balance for the reconciliation year.

178 A. The recovery balance for the reconciliation year, which reflects the sum of
179 the (refundable)/recoverable balances for fiscal years 2000 and 2001 for each
180 respective Gas Charge, is shown on Page 2, Line 11, of Respondent's Exhibit 1.
181 This amount, which can be determined by summing the amounts on Line 4 (fiscal
182 2000 balance) and Line 10 (fiscal 2001 balance), reflects an over-recovery of
183 \$35,729,034.33 for the CGC, an under-recovery of \$4,484,179.63 for the NCGC
184 and DGC and an over-recovery of \$27,804.30 for the TS, for a total over-
185 recovery of \$31,272,659.00.

186 Q. Please specify the total adjustments to gas costs (that is, Factor A) that
187 were amortized to Schedule I in Respondent's fiscal 2001 monthly filings but
188 were not yet reconciled through Schedule II of Respondent's monthly filings at
189 September 30, 2001.

190 A. Total unreconciled adjustments to gas costs (Factor A), which are shown
191 on Page 2, Line 12, of Respondent's Exhibit 1, reflect a refundable amount of
192 \$11,852,706.48 for the CGC, a recoverable amount of \$1,514,897.62 for the
193 NCGC and DGC and a refundable amount of \$4,223.70 for the TS, for a total
194 refundable Factor A of \$10,342,032.56. These adjustments, for the reported
195 months of August and September, 2001, are not yet reconciled at the end of

196 fiscal 2001. However, they are reflected in the CGC, NCGC and DGC, and TS
197 Gas Charges for the effective months of October and November, 2001, which fall
198 within fiscal 2002.

199 Q. Please specify any unamortized balance at the end of fiscal 2001.

200 A. The unamortized balance at the end of fiscal 2001 is shown on Page 2,
201 Line 13, of Respondent's Exhibit 1. The unamortized balance for each
202 respective Gas Charge can be derived by deducting the amount on Line 12
203 (unreconciled Factor A adjustments) from the amount on Line 11 (the over- or
204 under-recovery balance for the reconciliation year). Respondent's unamortized
205 balance at the end of fiscal 2001 reflects a refundable balance of \$23,876,327.85
206 for the CGC, a recoverable balance of \$2,969,282.01 for the NCGC and DGC,
207 and a refundable balance of \$23,580.60 for the TS, for a total refundable balance
208 of \$20,930,626.44.

209 Q. Please specify any Factor O amounts requested by Respondent for fiscal
210 2001.

211 A. There are no Factor O amounts requested by Respondent for fiscal 2001.

212 Q. Does Respondent's Exhibit 1 include other reports that support the
213 summary amounts shown on Page 2?

214 A. Yes. Respondent's Exhibit 1 includes a summary of the detailed Schedule
215 II, Adjustments to Gas Costs (Factor A) reports that were filed as part of
216 Respondent's monthly Gas Charge reports for fiscal 2001. Pages 6, 7 and 8 of
217 Exhibit 1 reflect Schedule II reports that were filed for the CGC, NCGC and DGC,
218 and TS, respectively. These reports reflect the monthly reconciliation of

219 recoverable gas costs and Gas Charge revenues, adjustments to gas costs
220 (Factor A), refunds and other adjustments, Factor A amortizations and
221 unamortized balances, Factor O amortizations and unamortized balances, and
222 interest determined for each Gas Charge. Finally, Page 9 of Exhibit 1 contains
223 notes that explain Gas Charge reconciliation summary items noted on Page 2 of
224 Exhibit 1.

225 Q. Does this conclude your direct testimony?

226 A. Yes, it does.